

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF CANEY CREEK	)	
WATER AND SEWER DISTRICT FOR A	)	
RATE ADJUSTMENT PURSUANT TO THE	)	CASE NO. 9611
ALTERNATIVE RATE FILING PROCEDURE	)	
FOR SMALL UTILITIES	)	

O R D E R

On October 15, 1986, Caney Creek Water and Sewer District ("Caney Creek") filed a petition requesting rehearing for the purpose of substantiating that Caney Creek's operating expenses warrant a greater rate increase than granted by the Commission in its Order of October 6, 1986. By its Order of November 11, 1986, the Commission granted rehearing on this issue. On December 3, 1986, Caney Creek filed additional testimony and supporting documentation in response to the Commission's Order on rehearing.

ISSUE ON REHEARING

In its response, Caney Creek discussed four issues which it believed to be of importance. These were: the required maintenance of an Operating and Maintenance Fund and of a Reserve Fund; the services provided at no cost to Caney Creek by Alice Lloyd College ("College"); the compensation of the system operator, and the depreciation associated with a water and sewer construction project.

The Commission, in its review of the testimony and documentation filed by Caney Creek, finds that no substantive basis has

been set forth in support of a greater revenue increase. Caney Creek was informed by letter on July 1, 1986, that the Commission determines the reasonableness of proposed rates utilizing the historical test period, giving consideration to known and measurable changes found reasonable. The letter further informed Caney Creek that the adjustments included in its Application were not proper for rate-making purposes and allowed Caney Creek to submit adjustments that met the known and measurable criteria.

The accounting records of Caney Creek provide no historical support for the estimate of the services provided by the College, and Caney Creek in its response provided no information with regard to the basis for the estimate of costs. The Commission is, therefore, unable to determine the reasonableness of these costs or if any or all of these costs should be more properly capitalized.

The proposal to increase the compensation of the system operator has not been quantified by Caney Creek in its response, and clearly does not meet the known and measurable criteria. Therefore, the Commission has not increased this expense beyond that included in the test year.

In its response to the Order on rehearing, Caney Creek discussed the water and sewer construction project and the effects of the associated depreciation. Caney Creek was granted a certificate of public convenience and necessity for this project

on August 7, 1984,<sup>1</sup> which was to include the drilling of a new well, the remodeling of the existing water treatment plant and the renovation of the existing sewage treatment plant. Since this project is still under construction or recently completed, the effect on the operations of Caney Creek cannot be determined at this time and no related revenues or expenses have been included in the determination of revenue requirements.

As stated previously, the Commission finds that Caney Creek has provided no support that revenues should be increased. However, on November 26, 1986, the Supreme Court of Kentucky rendered a decision in the cases of Public Service Commission of Kentucky v. Dewitt Water District, 86-SC-342-DG and East Clark Water District and Warren County Water District v. Public Service Commission and David L. Armstrong, Attorney General, Division of Consumer Protection, 86-SC-362-DG, finding that depreciation expense on contributed property should be recognized for rate-making purposes.

Therefore, the Commission has determined that depreciation on contributed property should be included in the determination of revenue requirements for Caney Creek.

In the Commission's Order of October 6, 1986, depreciation on contributed property was disallowed in the amount of \$8,284 and

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<sup>1</sup> Final Order dated August 8, 1984, Case No. 9087, The Petition and Application of Caney Creek Water District for Certificate of Public Convenience and Necessity.

\$6,249 for the water and sewer divisions, respectively. The revenues required by Caney Creek have been recalculated to include the total test-year depreciation expense of \$11,272 and \$8,503 for the water and sewer divisions, respectively.

The effect of the inclusion of depreciation on contributed property raises the revenue required by Caney Creek's water division to \$45,377<sup>2</sup> and results in an increase of \$8,284<sup>3</sup> above revenues previously granted. In the same manner, the revenue required by the sewer division has been raised to \$25,120<sup>4</sup> and

2	<u>WATER DIVISION</u>	
	Staff Adjusted Test-Year Operating Expenses	\$41,523
	ADD:	
	5-Year Average Principal & Interest Requirements	3,212
	.2 Coverage of Principal & Interest Requirements	<u>642</u>
	TOTAL REVENUE REQUIREMENTS	<u>\$45,377</u>
3	<u>WATER DIVISION</u>	
	Total Revenue Requirements	\$45,377
	LESS:	
	Other Operating Revenues	<528>
	Other Income (Net)	<u>&lt;230&gt;</u>
	Revenue Required from Sales of Water	\$44,619
	LESS:	
	Test Period Revenues from Sales of Water	<u>&lt;28,542&gt;</u>
	INDICATED INCREASE	\$16,077
	LESS:	
	Increase Previously Allowed	<u>&lt;7,793&gt;</u>
	INCREASE ON REHEARING	<u>\$ 8,284</u>
4	<u>SEWER DIVISION</u>	
	Staff Adjusted Test-Year Operating Expenses	\$19,338
	ADD:	
	5-Year Average Principal & Interest Requirements	4,818
	.2 Coverage of Principal & Interest Requirements	<u>964</u>
	TOTAL REVENUE REQUIREMENTS	<u>\$25,120</u>

results in an increase of \$5,933<sup>5</sup> over the revenues previously granted.

In its response to the Order on rehearing, Caney Creek states that the Operation and Maintenance Fund and the Reserve Fund cannot be maintained given the rate structure allowed by the Commission. A cash flow analysis, in which non-cash items such as depreciation are added back, indicates that with the rates herein allowed, Caney Creek should have approximately \$20,541<sup>6</sup> available

<u>5</u>	
<u>SEWER DIVISION</u>	
Total Revenue Requirements	\$25,120
LESS:	
Other Operating Revenues	<285>
Other Income (Net)	<u>&lt;154&gt;</u>
Revenue Required from Sewage Service	\$24,681
LESS:	
Test Period Revenue from Sewage Service	<u>&lt;18,748&gt;</u>
INDICATED INCREASE	\$ 5,933
LESS:	
Increase Previously Allowed	<u>-0-</u>
INCREASE ON REHEARING	<u>\$ 5,933</u>

<u>6</u>			
<u>CASH FLOW ANALYSIS</u>			
	<u>WATER</u>	<u>SEWER</u>	<u>TOTAL</u>
Operating Revenues	\$29,070	\$19,033	\$48,103
Operating Expenses	<41,523>	<19,338>	<60,861>
Net Operating Income	<12,453>	<305>	<12,758>
Revenue Increase	16,077	5,933	22,010
Interest Income	230	154	384
Depreciation	11,272	8,503	19,775
Subtotal	<u>\$15,126</u>	<u>\$14,285</u>	<u>\$29,411</u>
LESS:			
Reserve Fund			840
5-Year Principal & Interest Requirements			<u>8,030</u>
TOTAL CASH AVAILABLE			<u>\$20,541</u>

annually after payment to the Reserve Fund. In addition, this will provide sufficient funds for Caney Creek to raise the level of the Operation and Maintenance Fund to \$6,848<sup>7</sup> which is equal to 2 months operation and maintenance expenses, the reserve required by the bond resolution.

The Commission reminds Caney Creek that, in addition to the fund balances required, the bond resolution places restrictions on the use of those funds. Caney Creek should follow the guidelines of the bond resolution. The Commission will monitor the Annual Reports and review future rate proceedings for proper adherence to the bond resolution.

#### CONSTRUCTION PROJECT

The Commission is concerned with the status of the construction project. In the Application, Caney Creek stated that it had just completed the renovation and added equipment which has increased operating expenses. However, the Staff Audit Report ("Report") indicated that Caney Creek's financial records reflected no aspects of the construction and that the District's

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	<u>WATER</u>	<u>SEWER</u>	<u>TOTAL</u>
Operation & Maintenance Exp.	\$41,523	\$19,338	\$60,861
LESS:			
Depreciation	<u>&lt;11,272&gt;</u>	<u>&lt;8,503&gt;</u>	<u>&lt;19,775&gt;</u>
Annual Operation & Maintenance Expenses	\$30,251	\$10,835	\$41,086
Multiply By:			<u>x 2/12</u>
2 Months Operation & Maintenance Expenses			<u>\$ 6,848</u>

board determined in April 1986 to obtain financial statements pertaining to the project. The Report further stated that Caney Creek should review the financial information regarding the construction and update the financial records to reflect this project. Caney Creek's response to the Order on rehearing indicates that the assets have not been added to the financial statements and that uncertainties exist. Therefore, the Commission is of the opinion and finds that within 30 days of the date of this Order Caney Creek should file a status report on the construction project.

#### RATE DESIGN

In its application, Caney Creek proposed sewer charges that amount to approximately 60 percent of a customer's water bill. In its Order dated October 6, 1986, the Commission ruled that Caney Creek's charge for sewer service would be 43 percent of its customer charge for water service. Moreover, it was ordered that the sewer charge for customers not on the water system would be equal to the minimum water bill under a 3/4" meter.

As a result of the increase granted in this Order in both water and sewer revenues, the Commission is of the opinion that the rates set out in Appendix B should reflect sewer rates that approximate 53 percent of the rate charged customers for water service. The sewer charge for customers not on the water system shall be determined under the same provision as was ordered on October 6, 1986.

### SUMMARY

Based upon the issues presented in the petition for rehearing, the testimony filed on rehearing, the evidence of record and being advised, the Commission hereby finds that:

1. Caney Creek has provided no information that would support a greater increase than that previously granted.

2. Depreciation on contributed property should be included in the determination of revenue requirements for Caney Creek.

3. Caney Creek should file a status report on the water and sewer improvements construction project.

4. The revenue granted Caney Creek in Case No. 9611 should be increased by \$8,284 for the water division and \$5,933 for the sewer division.

5. The rates in Appendices A and B are the fair, just and reasonable rates for Caney Creek in that they are calculated to produce gross annual revenue from water sales of \$44,623 and from sewer operations of \$24,681. These revenues will be sufficient to meet the water and sewer divisions' operating expenses found reasonable for rate-making purposes and to service its debt.

IT IS THEREFORE ORDERED that:

1. The rates and charges in Appendices A and B are approved for service rendered on and after the date of this Order.

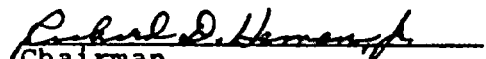
2. Within 30 days from the date of this Order, Caney Creek shall file with this Commission its revised tariff sheets setting out the rates approved herein.



3. Within 30 days from the date of this Order, Caney Creek shall file with this Commission a status report on the water and sewer construction project.

Done at Frankfort, Kentucky, this 23rd day of January, 1987.

PUBLIC SERVICE COMMISSION

  
Chairman

  
Vice Chairman

  
Commissioner

ATTEST:

\_\_\_\_\_  
Executive Director

## APPENDIX A

### APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 9611 DATED 1/23/87

The following water rates and charges are prescribed for all customers in the area served by Caney Creek Water District. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of this Commission prior to the effective date of this Order.

#### WATER RATES

##### Gallage Block For Each Meter Size

##### Monthly Rate For Each Gallage Block

##### 3/4" Meter

First 2,000 Gallons  
Next 8,000 Gallons  
Over 10,000 Gallons

\$12.65 Minimum Bill  
3.90 Per 1,000 Gallons  
3.15 Per 1,000 Gallons

##### 2" Meter

First 15,000 Gallons  
Over 15,000 Gallons

\$59.60 Minimum Bill  
3.15 Per 1,000 Gallons

##### 3" Meter

First 30,000 Gallons  
Over 30,000 Gallons

\$106.85 Minimum Bill  
3.15 Per 1,000 Gallons

## APPENDIX B

### APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 9611 DATED 1/23/87

The following sewer rates and charges are prescribed for all customers in the area served by Caney Creek Water District. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of this Commission prior to the effective date of this Order.

#### SEWER RATES

##### Gallonge Block For Each Meter Size

##### Monthly Rate For Each Gallonge Block

##### 3/4" Meter

First 2,000 Gallons  
Next 8,000 Gallons  
Over 10,000 Gallons

\$ 6.65 Minimum Bill  
2.10 Per 1,000 Gallons  
1.65 Per 1,000 Gallons

##### 2" Meter

First 15,000 Gallons  
Over 15,000 Gallons

\$31.70 Minimum Bill  
1.65 Per 1,000 Gallons

##### 3" Meter

First 30,000 Gallons  
Over 30,000 Gallons

\$56.45 Minimum Bill  
1.65 Per 1,000 Gallons